MOTION FILED

NOV 23 1966

IN THE

Supreme Court of the United States

OCTOBER TERM, 1965

No, 366

McCULLOUGH TOOL COMPANY, ET AL., *Petitioner,*

v.

WELL SURVEYS, INCORPORATED, ET AL., *Respondent.*

PETITION FOR REHEARING OF PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT

WITH

MOTION FOR LEAVE TO FILE AND APPENDIX

EDWARD S. IRONS,
1000 Connecticut Avenue, N. W.
Washington, D. C. 20036

R. WELTON WHANN,
315 West Ninth Street,
Los Angeles, California 90015,

Attorneys for Petitioner.

PRESS OF BYRON S. ADAMS PRINTING, INC., WASHINGTON, D. C.

SUBJECT INDEX

Page

Motion for Leave to File Petition for Rehearing 1

Petition for Rehearing of Petition for a Writ of Certiorari to the United States Court of Appeals for the Tenth Circuit 3

The Intervening Circumstances 3

The Question Presented 4

The Conflict in Decision 4

The Rocform Decision—Sixth Circuit, October 11, 1966 5

The Decision Below 8

Conclusion 11

APPENDIX

Opinion (October 11, 1966) of the Court of Appeals for the Sixth Circuit 1a

TABLE OF AUTHORITIES CITED

Cases

American Security Co. v. Shatterproof Glass Corporation, 268 F. 2d 769, 776, 777 (1959), cert. den., 361 U. S. 902, 4 L. Ed. 2d 157, 80 S. Ct. 210 (1959) .. 5, 8

Automatic Radio Mfg. Co. v. Hazeltine Research, 339 U. S. 827, 94 L. Ed. 1312, 70 S. Ct. 894 (1948) 2, 3, 4, 6, 8

Brulotte v. Thys Co., 379 U. S. 29, 13 L. Ed. 2d 99, 85 S. Ct. 176 (1965) 2, 3, 4, 6, 8

Clark v. Manufacturers Trust Co., 337 U. S. 953, 93 L. Ed. 1754, 69 S. Ct. 1526 (1949); 338 U. S. 241, 242, 94 L. Ed. 31, 70 S. Ct. 4 (1949) 2

Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., — F. 2d — 1, 3, 4, 5, 6, 8, 9, 11

Page

Sanitary Refrigerator Co. v. Winters, 280 U. S. 30, 34, 74 L. Ed. 147, 50 S. Ct. 9 (1929) 2
Stone v. White, 300 U. S. 643, 81 L. Ed. 858, 57 S. Ct. 610 (1937) 2
United States v. Ohio Power Co., 353 U. S. 98, 1 L. Ed. 2d 683, 77 S. Ct. 652 (1957) 2

STATUTES

United States Code, Title 28, Sec. 452 2
United States Code, Title 28, Sec. 1651 2
United States Code, Title 28, Sec. 2106 2

IN THE

Supreme Court of the United States

OCTOBER TERM, 1965

No. 366

McCULLOUGH TOOL COMPANY, ET AL., *Petitioner,*

v.

WELL SURVEYS, INCORPORATED, ET AL., *Respondent.*

MOTION FOR LEAVE TO FILE A PETITION FOR REHEARING

Petitioner McCullough Tool Company et al., moves the Court for leave to file a second Petition for Rehearing of its order of March 7, 1966, — U.S. —, 15 L. Ed. 2d 851, denying a Petition for Writ of Certiorari to the United States Court of Appeals for the Tenth Circuit in No. *366,* October Term, 1965.

The propriety of certain aspects of the decision below on patent validity issues is *presently* pending before this Court in No. 709, October Term, 1966.*

This motion is based upon the October 11, 1966 conflicting decision of the United States Court of Appeals for the Sixth Circuit in *Rocform Corp.* v. *Acitelli-*

---

* No. 709 predominantly relies upon the record lodged in this Court as an incident to the original petition. The same record will be relied upon if the present motion and petition are granted.

Standard Concrete Wall, Inc., — F. 2d —, Appendix, p. 1a. The conflict in decision is of particular significance because it turns upon the proper application of the decisions of this Court, in *Automatic Radio Mfg. Co.* v. *Hazeltine Research*, 339 U.S. 827, 94 L. Ed. 1312, 70 S. Ct. 894 (1948) and *Brulotte* v. *Thys Co.*, 379 U.S. 29, 13 L. Ed. 2d 99, 85 S. Ct. 176 (1965) to misuse defenses advanced in infringement litigation.

The issuance of a subsequent conflicting decision is a proper ground for rehearing; *Sanitary Refrigerator Co.* v. *Winters*, 280 U.S. 30, 34, 74 L. Ed. 147, 50 S. Ct. 9 (1929) footnote 1; even where the petition is filed outside the time specified by the applicable rule, *United States* v. *Ohio Power Co.*, 353 U.S. 98, 1 L. Ed. 2d 683, 77 S. Ct. 652 (1957); *Clark* v. *Manufacturers Trust Co.*, 337 U.S. 953, 93 L. Ed. 1754, 69 S. Ct. 1526 (1949); 338 U.S. 241, 242, 94 L. Ed. 31, 70 S. Ct. 4 (1949); *Stone* v. *White*, 300 U.S. 643, 81 L. Ed. 858, 57 S. Ct. 610 (1937). When justice so requires, such petitions are properly granted under 28 U.S.C. §§452, 1651 and 2106.

It is accordingly and respectfully requested that the following Petition for Rehearing be accepted for filing and granted.

Dated: November 22, 1966.

Respectfully submitted,

EDWARD S. IRONS,
1000 Connecticut Avenue, N. W.
Washington, D. C. 20036

R. WELTON WHANN,
315 West Ninth Street,
Los Angeles, California 90015,

Attorneys for Petitioner.

PETITION FOR REHEARING OF PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT

Petitioner prays that this Court grant a rehearing of its order of March 7, 1966 — U.S. —, 15 L. Ed. 2d 851 denying the Petition for Writ of Certiorari and that a Writ of Certiorari issue to review the judgment of the U. S. Court of Appeals for the Tenth Circuit in the above-entitled case as prayed for in the original petition filed July 19, 1965 herein (No. 366, October Term, 1965).

THE INTERVENING CIRCUMSTANCES

The "intervening circumstance(s) of substantial and controlling effect" (Rule 58) on which this petition for rehearing is predicated is the conflicting October 11, 1966 decision of the United States Court of Appeals for the Sixth Circuit in *Rocform Corp.* v. *Acitelli-Standard Concrete Wall, Inc.*, — F. 2d — (App. p. 1a). (One judge dissenting.)

The conflicting *Rocform* decision is the most recent instance of the rapidly escalating confusion in the lower federal courts with respect to the proper application of *Automatic Radio Mfg. Co.* v. *Hazeltine Research*, 339 U.S. 827, 94 L. Ed. 1312, 70 S. Ct. 894 (1948) and *Brulotte* v. *Thys Co.*, 379 U.S. 29, 13 L. Ed. 2d 99, 85 S. Ct. 176 (1965) in which the petitioners sought relief from voluntary license contracts, to the defense of misuse asserted by a nonlicensed third party against a patent holder seeking equitable relief from infringement.

THE QUESTIONS PRESENTED

The following question, decided by the court in *Rocform*, raises the same issues as the misuse question 1 presented by the original petition in this case:

> (1) Is a package patent license which includes an "important patent (about to expire) . . . grouped with others of longer duration", which license provides for "no diminution of the license fee at the expiration of the most important patent and contains no termination clause at the will of the licensee", "an effort to continue to collect royalties on an expired patent" and hence, a misuse precluding the licensor from enforcing the important patent in an infringement suit against a third party?"[1]

In *Rocform*, the Court of Appeals for the *Sixth* Circuit answered this question

"Yes".

In the decision below, the Court of Appeals for the *Tenth* Circuit answered this question

"No".

THE CONFLICT IN DECISION

The conflict on this fundamental misuse question is a consequence of an equally sharp divergence of opinion between the Sixth Circuit and the Tenth Circuit with respect to the decisions of this Court in *Automatic Radio* and *Brulotte*. These two Courts of Appeals have taken directly conflicting positions on the appli-

---

[1] The quotations in the question are from the *Rocform* decision. App., pp. 6a-7a.

cation of these important cases to misuse defenses raised by defendants in infringement litigation. In so doing, the Sixth Circuit has allied itself with the prior decisions of the Third Circuit in *American Securit Co. v. Shatterproof Glass Corporation*, 268 F. 2d 769, 776, 777 (1959) *cert. den.*, 361 U.S. 902, 4 L. Ed. 2d 157, 80 S. Ct. 210 (1959) which the Tenth Circuit has expressly rejected.

THE ROCFORM DECISION—SIXTH CIRCUIT. OCTOBER 11, 1966

In *Rocform*, the Court was faced with a "package" patent license. The single patent placed in issue in the infringement litigation was the most important patent in the package and would expire at an early date, i.e., October 17, 1967, whereas the patents of lesser importance in the package were of longer duration.

The majority in *Rocform* stated the misuse question thus posed as follows:

> "The District Judge also pointed out that the patent in suit had an early termination date (October 17, 1967), but the Rocform standard license agreement provided no reduction of license fees or termination date (except with penalties on the licensee's default)....
>
> * * * * * * * * *
>
> "In the instant case the District Judge said, ... 'Upon expiration of the patent in suit the consideration for the grant of the [package] license becomes substantially devaluated * * *.' The District Judge's findings make it clear that the patent in suit which expires in 1967 is the most important consideration for the license." (Insert added.) (App., pp. 3a, 5a)

The Sixth Circuit then affirmed the trial court's holding of misuse on the authority of *Brulotte*, and in so doing, distinguished *Automatic Radio*. The majority opinion is quoted in *extenso* because it emphasizes by reference to the *dissent*, the fundamental conflict generated in the lower federal courts by the *Brulotte* and *Automatic Radio* decisions.

The majority in *Rockform* held:

> "We believe that the District Judge was correct in viewing this licensing agreement as an illegal attempt to extend the patent in suit. It contains no termination clause running to the benefit of the licensee. See 3A Corbin, Contracts § 761 (1960). After the expiration of the patent in suit, Rocform's licensees would continue to pay the same fees as are provided during the life of the crucial patent.
>
> "The dissent in this case asserts that appellee is not entitled to claim patent misuse absent proof of a demand for the patent in suit as a separate item.
>
> "Clearly, where a licensee seeks relief from a patent package contract which he has signed voluntarily, he should be able to show a demand by him (and a refusal!) for the desired patent or patents as a separate item or items. Automatic Radio Co. v. Hazeltine, 339 U.S. 827, 85 USPQ 378 (1950). Such a demand is not, however, held essential to a defense of misuse when the patent-holder seeks equitable relief from infringement while still pursuing the illegal practice. Morton Salt Co. v. Suppiger Co., 314 U.S. 488, 52 USPQ 30 (1942).[2]
>
> * * * * * * * * *

---

[2] In *direct conflict*, the decision below failed to recognize any *distinction* between *Automatic Radio* where the petitioner sought relief from a voluntary license *contract* and the defense of *misuse*

"The dissent also contends that a flat price for use of a number of patents is permissible practice up to the termination date of 'the last necessary patent.'

"We believe this is too broad a contention. We do not deal here (as did the Supreme Court in Brulotte v. Thys Co., supra) with the sale of a piece of machinery which incorporated a number of patents. Rather we deal with a licensing arrangement where one important patent (about to expire) is grouped with others of longer duration for 'leverage.' Cf. American Securit Co. v. Shatterproof Glass Corp., supra.

"We believe such a contract, when it contains no diminution of license fee at the expiration of the most important patent and contains no termination clause at the will of the licensee, constitutes,

---

asserted by the petitioner in this case against the respondent who seeks equitable relief in an infringement suit.

The court below said, with respect to respondent's licenses (which in all material respects are the same as the licenses found to constitute a misuse in *Rocform*).

"The validity of such an agreement was upheld by the Supreme Court in Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S. 827. The facts in that case are almost identical with the facts in this case. There, as here, the license agreements offered by the patentee were of the so-called package type and included all of its present and future patents. The package licenses were offered for a flat percentage of the licensee's operations, whether or not any of the patents were used. There, as here, some but not all of the patents had expired before the license agreement in question was executed and more of them would expire during the effective period of the agreement. The Court held that the royalty provision did not create a monopoly or operate as a restraint of trade. It noted that there was no evidence to show that the patentee had '* * * refused to grant a license under any one or more of its patents to anyone who refused to take a license under all * * *' ..." (App. to original Petition, p. 53a)

in effect, an effort to continue to collect royalties on an expired patent. Brulotte v. Thys Co., supra; American Securit Co. v. Shatterproof Glass Corp., supra."[3] (App., pp. 5a-7a)

THE DECISION BELOW

The Tenth Circuit in the decision below, reached an exactly contrary result on the *very same* misuse question.

Like the defendant in *Rocform,* petitioner here is *un*licensed and asserts a defense of misuse against respondent, a patent holder seeking equitable relief while still pursuing illegal licensing practices. Petitioner does *not,* like the defendants in *Automatic Radio* and *Brulotte,* seek relief from a license contract which he signed voluntarily.

In *this* case, as in *Rocform,* the challenged license is for a package of patents, the most important of which would expire during the license term. As in *Rocform,* the "important patent (about to expire) is grouped together with others of longer duration for 'leverage' ".

The court below held:

"The record also shows that the royalty base in many, if not all, of the license agreements includes

---

[3] The court below embraced a "broad" contention rejected by the majority and adopted by the dissent in *Rocform* stating:

"We certainly recognize the principles enunciated in Brulotte and the other cases but think there are important distinctions between those cases, on the one hand, and the Hazeltine case and this case, on the other. In Brulotte and Ar-Tik the license agreement under consideration attempted to extend the period for paying royalties beyond the date of expiration of the last of the patents covered by the agreement. That is not the case here or in Hazeltine. . . ." (App. to original Petition, pp. 54a-55a)

operations covered by patents that expired after the agreements were entered into by the parties.[8] In addition, the trial court found, and the evidence confirms, that WSI continued to the date of judgment below to grant licenses in which the royalty base includes receipts derived from operations covered by the expired Bender Reissue and Fearon Patents, except in instances where the licensee has accepted WSI's offer to license its patents on a narrower basis.[9] " (App. to original Petition pp. 51a-52a)

"[8] These are, of course, the Bender Reissue Patent, which expired on October 18, 1955, and the Fearon Patent which expired on January 12, 1960.

"[9] The finding reads as follows:

" 'WSI has continued to the date of this finding to grant licenses in which the royalty base is all of the licensee's receipts from radioactivity well logging operations, including those covered by the expired Bender and Fearon neutron patents, except where the licensee has accepted WSI's offer to grant a license on an individual patent basis or on some other narrower basis. WSI continues to the date of this finding to receive royalty payments from one or more of its licensees calculated on a royalty base which includes receipts of the licensee from operations covered by the said expired Bender and Fearon patents.' "

Earlier in its opinion, the court below held that Bender was "A primary or pioneer patent . . ." entitled to "a broad and liberal range of equivalence" and that Fearon which "constitutes a marked improvement in the art" (App. to original Petition, p. 36a) is entitled to a substantial range of equivalence. There were 70 to 75 other patents, of a minor improvement nature included in the package.

As in *Rocform,* the respondent's licenses "contains no diminution of license fee at the expiration of the most important patent and contains no termination clause at the will of the licensee . . ." (App., pp. 6a-7a)

The respondent's practices here relevant are typified by the license agreement with Lane-Wells, dated June 1, 1956.[4] Pursuant to this representative agreement, royalty is paid "on each well surveyed under this *license*" (Par. 5.02). The *"license"*, in turn, is granted broadly "to practice Radioactivity Well Surveying for others for hire" (Par. 2.01). These two provisions thus expressly require royalty payments on any activity which falls within the licensed field of "Radioactivity Well Surveying". This *field*, in turn, is defined in paragraph 2.01 in terms sufficiently broad to cover operations effected *only* under the Bender patent which expired in 1955 *before* the agreement was consummated and also *only* under the Fearon patent *which would* expire on January 21, 1960.[5]

Paragraph 6.04 precludes termination of the agreement by Lane-Wells, the licensee, until "the fifth anniversary of the date hereof"—in other words, until June 1, 1961, some 18 months *after* the Fearon expiration date. Even on the "fifth anniversary" the licensee Lane-Wells was required to cancel as to "all patents, whether wanted or unwanted under the license". To continue a license under the unexpired Swift patent, Lane-Wells was *obligated* to continue to pay an *undiminished* royalty on *all* operations within "Radio-

[4] Ex. 501, First Book of Contracts, Agreement No. 11, a copy of which constitutes Appendix B, pp. 2a-12a, of petitioner's "Reply Brief in Support of Petition for Writ of Certiorari" previously filed in this Court on October 3, 1965.

[5] This, of course, is the basis for Findings of Fact 122 (App. to original Petition, p. 109a) and 127 (App. to original Petition, p. 110a) summarized in the acknowledgment by the court below that "The record also shows that the royalty base in many, if not all, of the license agreements includes operations covered by patents that expired after the agreements were entered into by the parties." (App. to original Petition, pp. 51a-52a).

activity Well Surveying" and hence, under the spent Bender and Fearon monopolies. As in *Rocform*, the respondent's licenses contain "no diminution of the license fee at the expiration of the most important [Fearon] patent".[6]

CONCLUSION

The Petition for Rehearing should be granted. Resolution of the conflict in the circuits on the fundamental misuse issue presented should not be foreclosed merely because of the timing of the *Rocform* decision.

EDWARD S. IRONS,
1000 Connecticut Avenue, N. W.
Washington, D. C. 20036

R. WELTON WHANN,
315 West Ninth Street,
Los Angeles, California 90015,

Attorneys for Petitioner.

---

[6] The respondent's licensing arrangements are even more objectionable than those before the court in *Rocform*, because of the express—and illegal—obligation to pay royalty on the Bender invention which was already in the public domain when the license was consummated.